MOODY'S INVESTORS SERVICE

Credit Opinion: New Europe Property Investments plc

Global Credit Research - 20 Oct 2015

Isle of Man

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Baa3

Contacts

Analyst	Phone
Roberto Pozzi/London	44.20.7772.5454
Maria Maslovsky/London	
Patrick Mispagel/London	

Key Indicators

[1]**New Europe Property Investments plc**

	6/30/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
FFO Payout	18.0%	14.5%	10.7%	33.0%	100.8%
Amount of Unencumbered Assets	67.0%		31.5%	4.4%	6.0%
Debt / Gross Assets [2]	15.6%	12.6%	22.9%	30.5%	38.7%
Net Debt / EBITDA	2.6x	1.3x	4.4x	2.9x	4.1x
Secured Debt / Gross Assets	13.9%	12.6%	22.9%	30.5%	38.7%
Gross Assets (USD Million)	$1,986.0	$1,860.1	$1,430.4	$821.6	$550.7
Development Pipeline	6.4%	14.5%			
EBITDA Margin (YTD)	104.7%	103.2%	99.8%	122.0%	101.8%
EBITDA Margin Volatility	9.6%	9.6%	11.4%		
EBITDA / Fixed Charges (YTD) [2]	7.0x	6.0x	4.7x	4.1x	3.3x
Joint Venture Exposure (YTD)	5.7%		10.6%	13.8%	

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics [2] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Romanian retail property - demand for modern retail and office space continues to exceed supply

Good quality buildings, high occupancy rates and a high quality and diversified tenant base

Committed development pipeline will continue to decline, thus further reducing business risk

Financial metrics are very strong for the rating level

Geographic concentration limits further rating upside and raises forex risk

Corporate Profile

New Europe Property Investments plc ("NEPI") is an Isle of Man incorporated real estate investment companythat acquires, develops and manages retail and office property investments located in Romania, with a foothold in Slovakia and in Serbia. NEPI is listed on the main board of the Johannesburg Stock Exchange (JSE), the Alternative Investment Market (AIM) of the London Stock Exchange and the regulated market of the Bucharest Stock Exchange; however, more than 90% of the shares are listed on the JSE. NEPI's three largest shareholders as at 15 August 2015 were South African property-focussed investment funds: Resilient Property Income Fund (unrated), with a 9.3% stake in the business, Fortress Income Fund (unrated) with 8.8%, and Capital Property Fund (rated A3.za - stable) with 8.7%. As of 30 June 2015, NEPI's total assets totalled EUR 1.82 billion (EUR1.57 billion in 2014) and reported net rental and related income for the last twelve months was EUR 84 million (EUR 66 million in 2014). The company had a market capitalisation of EUR2.7 billion as of 16 October 2015.

SUMMARY RATING RATIONALE

NEPI's Baa3 rating factors in the company's (i) important franchise value as the largest retail property owner in Romania; (ii) very strong financial metrics for its rating level; (iii) good quality, modern assets with high (98% in H1 2015) occupancy rates; (iv) steady cash flows from contractual rental income with limited tenant concentration risk; and (v) supportive shareholders. However, the rating also takes into account NEPI's relatively small scale of operations compared with investment-grade rated peers in EMEA, its limited geographic diversification and reliance on the Romanian economy as well as a degree of currency risk due to the mismatch between the company's euro-denominated leases and tenants' local currency revenues.

NEPI has strong financial metrics for its rating category. The company's "effective" leverage as at 30 June 2015, as measured by adjusted debt/total assets, at 12.1% indicated generous asset cover for its debt. Over the same 6-month period, fixed charge coverage, as measured by EBITDA/interest expense + capitalised interest + ground rents, was high at approximately 7.0x. The company's financial policy is to maintain its loan-to-value ratio (defined as interest-bearing debt less cash/investment property and listed property securities) at around 30%-35%. Whilst leverage will increase from the currently very low levels, NEPI's financial targets are conservative and, in our opinion, sustainable over the rating horizon.

DETAILED RATING CONSIDERATIONS

ROMANIAN RETAIL PROPERTY - DEMAND FOR RETAIL AND OFFICE SPACE CONTINUES TO EXCEED SUPPLY

The Romanian retail sector is transitioning from traditional stalls and small shops towards modern, destination retailing, with online shopping providing little competition at this stage. NEPI has benefitted from this trend through the development and completion of several modern facilities over the past few years. The bulk of shopping centre space in Romania is located in the greater Bucharest area. Tenant demand for retail space continues to be focussed on the more populous cities in Romania, those with more than 150,000 inhabitants. NEPI reports that the catchment areas for its centres are more than double that number. The shopping centre pipeline in Romania remains low and there were only two retail centres delivered in 2015, one of which is NEPI's Mega Mall opened in May 2015, which should maintain supply and demand of modern retail space in balance and rents stable in the next 12-18 months.

Longer term, as new players enter the growing and profitable Romanian market, we believe that it will gradually become more difficult for NEPI to sustain the growth rates it has experienced over the past ten years, also evidenced by the company's declining development pipeline. Given the relative maturity NEPI has achieved in its domestic market, we expect it to pursue moderate expansion in neighbouring markets, likely through (lower risk) acquisitions of established assets rather than (higher risk) new developments.

GOOD QUALITY BUILDINGS, HIGH OCCUPANCY RATES AND A HIGH QUALITY AND DIVERSIFIED TENANT BASE

NEPI owns 23 retail properties (mainly shopping malls), 5 office buildings and 2 industrial facilities, as well as 4 assets under development. Retail properties generated around 80% of the company's rental income in H1 2015. Properties located in Romania generated 82% of rental income, 15% in Slovakia and 3% in Serbia.

NEPI's retail and office properties are new, modern facilities that range from good- to high-quality. Many of its retail properties are situated in regional locations across Romania, but the company invests only where it can achieve dominance within each of its catchment areas. Most of its retail properties have land available for extension.

The company enjoys high occupancy rates, which as of 30 June 2015, was 98.2% for its retail portfolios and 98.5% for its office portfolio (occupancy rates have been consistently above 98% over the past two years).

NEPI's cashflow is underpinned by the quality of its top tenants. The top three retail tenants are well-known retailers: Carrefour (Baa1 stable), Auchan (unrated) and H&M (unrated). Together they account for 12.4% of NEPI's total rental income (H1 2015). The top three office tenants represent 4.4% of total rental income; they are PricewaterhouseCoopers (unrated), Wipro (unrated, an Indian multinational IT consulting and system integration services company) and Huawei Technologies (unrated, the world's largest telecommunications equipment maker). Tenant concentration risk overall is modest. The top 10 tenants represent 24.4% of NEPI's total rental income.

NEPI's weighted average remaining lease term is moderate at 5.2 years. The company has a dedicated in-house leasing team that has demonstrated its ability to renew leases and re-let space. In addition, management takes care to choose creditworthy tenants, as indicated by the negligible level of rental arrears.

COMMITTED DEVELOPMENT PIPELINE WILL CONTINUE TO DECLINE, THUS FURTHER REDUCING BUSINESS RISK

New development risk has significantly reduced during the last 12 months: NEPI's developments peaked at 14% of total assets in 2014 whilst decreasing to 6.4% in H1 2015 following the completion of Mega Mall in Bucharest. We expect that developments under construction as a percentage of total assets will continue to decrease over the next two years as the company's income producing portfolio grows. However, we note that the company's development pipeline remains sizeable including uncommitted projects and land bank, totalling around EUR500 million. We acknowledge the company's excellent track record in successfully completing its projects and the fact that company's development pipeline has been largely equity funded, given its low leverage.

Also, many of its existing developments are either extensions of existing successful shopping centres or are low-rise buildings on easily accessible sites

NEPI has a well-defined approach to development: in addition to having overcome the usual hurdles of design, planning permission, building regulations and arranging finance, each development project must also be sufficiently "anchored" with pre-lettings to appropriate tenants prior to commencing construction works. NEPI's developments are phased according to the capacity of its in-house teams that manage the process.

FINANCIAL METRICS ARE VERY STRONG FOR THE RATING LEVEL

NEPI has strong financial metrics for its rating category. The company's "effective" leverage as at 30 June 2015, as measured by adjusted debt/total assets, at 12.1% indicated generous asset cover for its debt. Over the same 6-month period, fixed charge coverage, as measured by EBITDA/interest expense + capitalised interest + ground rents, was high at approximately 7.0x. The company's financial policy is to maintain its loan-to-value ratio (defined as interest-bearing debt less cash/investment property and listed property securities) at around 30%-35%. Whilst leverage will increase from the currently very low levels, NEPI's financial targets are conservative and, in our opinion, sustainable over the rating horizon.

NEPI's property portfolio is valued on an annual basis by external, independent valuation firms and based on discounted cash flows and open market comparables, where available. In its financial accounts, NEPI reports land to be used in developments at fair value and buildings under construction at cost until the development is complete or its fair value can be reliably determined. There are few market comparables for prime retail assets in Romania. We understand that while there is investor demand, current owners are not willing to sell. We believe, however, that investor appetite for acquiring Romanian property assets, including the modern stock owned by NEPI, is likely to exhibit greater volatility over the course of an economic cycle compared to that for very large, prime shopping centres in Western Europe such as those owned by the large French and UK REITs.

On 7 August 2015, the previous CEO and COO resigned, and an experienced existing executive director was appointed CEO. The company's strategy, financial policy and ownership structure are not affected by the management change.

ADEQUATE BUT NOT AMPLE LIQUIDITY

NEPI has an adequate, though not ample, liquidity profile. At the end of June 2015, NEPI had cash balances of

EUR63.5 million and around EUR50.0 million available under its committed revolving facility agreements. NEPI's internal cash flow generation plus available liquidity, a planned bond issue and planned equity raising well in excess of dividends paid out should cover its cash requirements over the next 12 months, in our view, including capex well above maintenance levels and upcoming debt maturities.

. We also understand that NEPI can suspend its development activities at any time (and subsequently restart at any time) due to the flexible structure of its construction contracts (no general contractor). Lastly, given its non-REIT status, the company has no legal requirement to distribute dividends and, therefore, greater financial flexibility compared to other REITS.

GEOGRAPHIC CONCENTRATION LIMITS FURTHER RATING UPSIDE AND RAISES FOREX RISK

Given the sheer strength of its financial metrics and very strong market position in Romania's domestic retail property sector, we believe that NEPI's rating should more closely reflect the company's strengths, as evidenced by a grid implied rating (Baa1) and multiple Aa scorings in several sub-factors of our rating methodology. Although NEPI is increasingly strongly positioned on its own merits, further rating upside is constrained by the company's limited geographic diversification.

The outlook for Romania's rating is stable. It incorporates our expectations that recent growth, fiscal, and bank asset quality improvements will be sustained and regional integration will continue to provide trade benefits. Risks stemming from the country's relatively high external debt and contingent liabilities arising from the state-owned sector have been contained. Annual real GDP growth averaged around 5% in the decade leading up to the global financial crisis but the post-crisis growth rate has been significantly slower, averaging close to zero in 2009-2013. In 2014 real growth reached 2.6%, with household consumption contributing to growth for the first time since 2008 and replacing net exports as the main growth engine. We expect growth to remain close to 3% in the next two years, supported by a recovery in domestic demand but constrained by subdued demand in Romania's main trading partners in the euro area. GDP growth is unlikely to revert to pre-crisis levels as some of the exceptional conditions that led to a growth boom in the last decade - such as rapid domestic credit growth due to easy global credit conditions - are unlikely to return. Over the medium term, EU integration will continue to ensure gradual improvements in Romania's trade, investment and competitiveness metrics.

NEPI is exposed to a degree of currency risk. Although NEPI's debt and leases are denominated in Euros, its tenants typically earn revenues in local currency. We believe that this exposes the company to the risk of a devaluation of the local currency. That said, we acknowledge that the exchange rate of the Romanian currency versus the Euro has been relatively stable since 2009 and that the Romanian government's plan to join the Eurozone, though not near term, should somewhat support its currency.

Rating Outlook

The stable outlook reflects our forecast for continued positive GDP growth in Romania, which will support retail expenditure and, by extension, tenant demand for retail property. The stable outlook also reflects our belief that NEPI will continue managing its business to maintain high occupancy rates, similar levels of operational profitability and will manage its leverage in line with its conservative financial policy guidelines.

What Could Change the Rating - Up

An upgrade is unlikely in the near term and will depend on Moody's expectations for the Romanian economy, as evidenced by its sovereign rating, as well as on increased size and geographic diversification of the company's portfolio.

What Could Change the Rating - Down

Downward pressure on the rating could arise from (i) a deterioration in the economic outlook for the Romanian economy, (ii) a deterioration in the operating performance of the company, as evidenced by reduced occupancy rates, negative rental growth or reduced profitability/cash flow generation; (iii) increasing development risk such that the committed development pipeline rose sustainably above 10% of the property portfolio; (iv) adjusted debt/total assets sustainably above 35% or fixed charge coverage below 3.5x; or (v) a failure to maintain an adequate liquidity profile.

Other Considerations

GRID INDICATED RATING

The principal methodology used in rating NEPI was Moody's Global Methodology for REITs and Other Commercial Property Firms, published July 2010. The Baa3 final rating is three notches lower than the A3 grid outcome because more weight was placed upon the company's modest scale and the fact that its assets are primarily located in a developing property market where asset values could prove volatile given the limited number of market comparables for prime retail assets. Romania's Baa3 sovereign rating also constrains NEPI's rating.

Rating Factors

New Europe Property Investments plc

REITs and Other Commercial Property Firms Industry Grid [1][2]	**Current LTM 6/30/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 10/19/2015**	
Factor 1: Liquidity and Funding (24.5%)	**Measure**	**Score**	**Measure**	**Score**
a) Liquidity Coverage	Baa	Baa	Baa	Baa
b) Debt Maturities	Ba	Ba	Aa	Aa
c) FFO Payout	18.0%	Aa	100% - 110%	B
d) Amount of Unencumbered Assets	67.0%	Baa	90% - 95%	A
Factor 2: Leverage and Capital Structure (30.5%)				
a) Debt / Gross Assets	15.6%	A	32% - 34%	Baa
b) Net Debt / EBITDA	2.6x	Aa	3.3x - 4x	A
c) Secured Debt / Gross Assets	13.9%	Baa	9% - 10%	A
d) Access to Capital	Baa	Baa	Baa	Baa
Factor 3: Market Position and Asset Quality (22%)				
a) Franchise / Brand Name	Baa	Baa	Baa	Baa
b) Gross Assets(USD Million)	$1,986.0	Ba	$2200 - $2400	Baa
c) Diversity: Location / Tenant / Industry / Economic	Ba	Ba	Ba	Ba
d) Development Pipeline	6.4%	Baa	7% - 8%	Baa
e) Asset Quality	Baa	Baa	Baa	Baa
Factor 4: Cash Flows and Earnings (23%)				
a) EBITDA Margin (YTD)	104.7%	Aa	93% - 96%	Aa
b) EBITDA Margin Volatility	9.6%	Ba	9% - 11%	B
c) EBITDA / Fixed Charges (YTD) [4]	7.0x	Aa	3.8x - 4.2x	Aa
d) Joint Venture Exposure (YTD)	5.7%	A	2% - 5%	Aa
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures. [4] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.